SOUTHCOAST
COMMUNITY BANK

October 16, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
Regs.comments@federalreserve.gov
Subject: Comment on Basel III Docket No. 1442

Robert E. Feldman
Executive Secretary, FDIC
comments@FDIC.gov
Subject: Comment on Basel III Docket No. 1442

Office of the Comptroller of the Currency
Regs.comments@occ.treas.gov
Subject: Comment on Basel III Docket No. 1442

Ladies and Gentlemen:

On behalf of our management team, board of directors, customer base, and shareholders, I appreciate the opportunity to comment on the proposed implementation of the BASEL III standards. Our institution, Southcoast Community Bank, is a $440 million community bank headquartered in Mount Pleasant, South Carolina, with ten branches serving the tri county area in and around Charleston, South Carolina. Our primary concerns with the proposed standards are twofold and will be detailed in the following paragraphs.

Our management team's first area of concern is the proposed regulatory capital treatment of the equity component of unrealized gains or losses on available for sale securities, net of tax effects. Current regulatory capital guidelines mandate the reversal of these unrealized gains or losses from Tier 1 and Tier 2 capital calculations. Proposed guidelines would leave these amounts in the calculations of these ratios. The implementation of these proposed guidelines could cause wide fluctuations to a bank's regulatory capital levels, and therefore its capital ratios due to movements in market rates of interest. Due to their greater potential for volatility and therefore potential for a negative impact on regulatory capital levels, longer term investments would likely fall out of favor with banks. Mortgage rates would rise, making home ownership less affordable for many Americans. Municipal borrowing rates would rise as well, limiting capital improvement projects needed in our towns and communities. Furthermore, these fluctuations in interest rates often occur independently of the net income trends experienced by banks, and may obscure the true health of an institution as a result. This proposal ignores the asset liability management function performed by bank management, as it does not take into consideration a bank's interest sensitivity profile which is a measure of how a bank's earnings will respond in times of changing interest rates.

Our management team's second area of concern is the proposed change in the treatment of trust preferred debt at the holding company level for institutions with consolidated assets of $500 million or

P.O. Box 1561 Mt. Pleasant, SC 29465 843-884-0504 Fax 843-884-2886

more. While our Company is currently below the $500 million threshold, we have eclipsed this level in the past, and have strategic plans to do so again. The proposed standards would eliminate the treatment of trust preferred debt as Tier 1 capital. This change may force bank holding companies to raise additional capital through stock offerings at a time when it may be difficult or impossible to do so. The market for secondary stock offerings is still tenuous, bank capital ratios are under pressure, and such a proposal only serves to make a difficult situation worse. It seems that instead of changing the rules of the game midstream, it may make more sense to implement this rule on a going forward basis for all new issuances of trust preferred debt. The market has already turned very unfavorably against these instruments as investments, and new trust preferred issuance is practically unheard of. If the rule is changed to disallow Tier 1 treatment for all future issuances of trust preferred debt, bank holding companies will grow their capital bases through the more traditional means of undistributed earnings and stock offerings instead of hybrid debt instruments that have fallen out of favor with the regulatory bodies and investment community. But changing the rules for capital treatment of existing instruments seems both dangerous and unfair in the current economy.

Thank you again for the opportunity to comment and please feel free to contact me if you have questions.

Sincerely,

William B. Seabrook

William B. Seabrook
Chief Operating Officer
Southcoast Community Bank